CLEAN ENERGY - AFFORDABLE HEALTH CARE - EDUCATIONAL EXCELLENCE -

APRIL 2009

A NEW DIRECTION FOR
ECONOMIC RECOVERY

FISCAL RESPONSIBILITY - TAX FAIRNESS - CLEAN ENERGY - FISCAL RESPONSIBILITY

GUIDE TO AMERICAN RECOVERY AND REINVESTMENT ACT: TAX CUTS AND BENEFITS FOR INDIVIDUALS

TAX CUTS

MAKING WORK PAY TAX CREDIT

The Recovery Act establishes the Making Work Pay Tax Credit, which provides immediate and sustained relief to about 95 percent of American workers and their families. This is a refundable tax credit of up to $400 per worker and $800 per couple filing jointly, phasing out completely at $190,000 for couples filing jointly and $95,000 for single filers.

These tax cuts are being distributed to 110 million working families generally by reducing tax withholding from workers' paychecks by April 1st. Hence, most workers do not have to take any action to begin receiving this tax credit, as their employer will simply reduce their tax withholding. Workers who do not receive the benefit of this refundable credit through reduced withholding in their paychecks may claim the credit when they file their 2009 tax return in 2010 and their 2010 tax return in 2011.

The tax credit is in effect for 2009 and 2010.

CHILD TAX CREDIT

The Recovery Act expands the eligibility for the refundable child tax credit in 2009 and 2010 – benefiting the families of more than 16 million children.

Under prior law, taxpayers with dependent children under age 17 needed at least $8,500 in income to benefit from the credit. The Act lowers that income threshold to $3,000.

Families may claim the expanded child tax credit when they file their 2009 tax returns in 2010 (and when they file their 2010 tax returns in 2011). The 2009 and 2010 tax forms will reflect this expansion of the child tax credit.

EARNED INCOME TAX CREDIT

The Recovery Act expands the Earned Income Tax Credit (EITC) for families with three or more children and also reduces the marriage penalty in the EITC in 2009 and 2010. For example, the maximum credit for a qualifying family with three or more children will rise by $629 to $5,657.

Families may claim the expanded EITC when they file their 2009 tax returns in 2010 (and when they file their 2010 tax returns in 2011). The 2009 and 2010 tax forms will reflect this expansion of the EITC.

COLLEGE TAX CREDIT ("AMERICAN OPPORTUNITY TAX CREDIT")

The Recovery Act replaces the Hope Scholarship credit (up to $1,800) with a new credit – the American Opportunity Tax Credit. The new $2,500 American Opportunity Tax Credit is available for both this year and in 2010. The credit covers up to the first $2,000 in eligible expenses for attending college, such as tuition, fees and books, and then 25 percent of the next $2,000 in eligible expenses.

The new credit also is 40 percent refundable, which means taxpayers who have little or no tax liability will still benefit from the credit. As a result, more than 4 million low-income students who had not had any access to higher education tax credits in the past, will be able to use this credit.

In addition, the income limits for the new credit are higher, phasing out for incomes above $80,000 for individuals and $160,000 for couples filing jointly, up from $50,000 and $100,000 under the Hope credit.

Families may claim the American Opportunity Tax Credit when they file their 2009 tax returns in 2010 (and when they file their 2010 tax returns in 2011).

COMPUTERS AS QUALIFIED EXPENSES IN SECTION 529 COLLEGE SAVINGS PLANS

Section 529 Education Plans are tax-advantaged savings plans that cover all qualified higher education expenses, including tuition, room and board, mandatory fees and books. The Recovery Act provides that, for 2009 and 2010, the purchase of computers and other computer equipment, as well as to payments for Internet access, will qualify as qualified higher education expenses.

ENHANCING REFUNDABLE FIRST-TIME HOME BUYER CREDIT

The Recovery Act enhances the first-time home buyer credit by increasing it to $8,000 (from $7,500) and by removing the repayment requirement. (The credit in effect in 2008 required that the tax credit be repaid over a 15-year period, effectively turning it into an interest-free loan.)

Specifically, under the Recovery Act, first-time home buyers who purchase a home between January 1, 2009 and November 30, 2009 can qualify for a tax credit of up to $8,000, or 10 percent of the purchase price. (Home buyers will have to pay the credit back if they sell the home within three years or it stops being their principal residence during that time.) The credit starts to phase out for buyers with incomes above $75,000 for individuals and $150,000 for married couples.

Families eligible for the enhanced first-time home buyer credit that purchase homes after April 15, 2009 may receive the credit when they file their 2009 tax returns in 2010, or they may amend their 2008 returns and claim it this year.

SALES TAX DEDUCTION FOR VEHICLE PURCHASES

The Recovery Act provides all taxpayers with a deduction for state and local sales and excise taxes paid on new cars, light trucks, recreational vehicles, and motorcycles for vehicles purchased after February 16, 2009 through the end of the year.

The deduction is limited to the first $49,500 of the vehicle's purchase price and is phased out for buyers whose incomes exceed $125,000 for individuals and $250,000 for couples filing jointly. The deduction is an "above-the-line" deduction – that is, even those who do not itemize their deductions can claim this deduction.

Families may claim the sales and excise tax deduction for new vehicle purchases when they file their 2009 tax returns in 2010.

TAX CREDITS FOR ENERGY EFFICIENCY IMPROVEMENTS FOR HOMEOWNERS

Under the Recovery Act, homeowners who make energy-efficient improvements to their property can qualify for tax credits of up to 30 percent, or a maximum of $1,500.

The credits cover such items as the installation of high-efficiency furnaces, tankless water heaters, qualified windows, insulation, central air conditioning systems, and metal or asphalt roofing. A detailed list of qualified improvements is available at www.energystar.gov

Families may claim the expanded and increased tax credits for energy efficient home improvements when they file their 2009 tax returns in 2010.

BENEFITS

UNEMPLOYMENT ASSISTANCE

- An Increase In Weekly Unemployment Benefits: The Recovery Act increases unemployment benefits by $25 per week, which is estimated to help 20 million jobless workers. These payments may be included in an individual's weekly unemployment check or provided separately on a weekly basis. No action is required by an UI recipient to receive this additional $25 per week. The implementation of this increase began in some states as early as the week of March 1; by the end of April, all states are expected to have implemented the increase. The $25 weekly increase is retroactive, covering weeks of unemployment beginning February 22.

- Extended Unemployment Benefits: The Recovery Act continues through December 2009 the extended unemployment program (which provides up to 33 weeks of federally-funded extended benefits to individuals exhausting regular, state-provided unemployment benefits), that was otherwise scheduled to begin to phase out at the end of March 2009. State unemployment offices should notify individuals nearing exhaustion of regular benefits of their potential eligibility for extended benefits. No action is required by a UI recipient to begin receiving these extended benefits.

- Suspending Taxes on Unemployment Benefits: The Recovery Act suspends the taxation of the first $2,400 in unemployment benefits a person receives, for tax year 2009. The IRS forms for 2009 taxes will provide for not counting the first $2,400 in unemployment benefits towards an individual's taxable income.

- Expanded Coverage: The Recovery Act provides a total of up to $7 billion for states that have in place or commit to implementing specific provisions designed to increase UI coverage for low-wage, part-time, and other workers now sometimes excluded from the program. If a state takes advantage of this new funding, some additional workers may become eligible for unemployment benefits if they lose their jobs. In such states, no specific action is required of individuals to receive benefits other than following his/her state's regular rules for filing for unemployment benefits.

For more information, go to:
http://www.dol.gov/recovery

FOOD STAMPS

The Recovery Act provides $19.9 billion to increase monthly food stamp benefits by 13.6 percent, or roughly $80 per family per month, to help offset rising food costs for more than 31 million Americans, half of whom are children.

On March 9, Secretary of Agriculture Tom Vilsack announced that this 13.6 percent increase in monthly food stamp benefits would begin to be provided to recipients on April 1st.

For more information, go to:
http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1OB?contentidonly=true&contentid=2009/03/0051.xml

ONE-TIME PAYMENT OF $250 FOR SENIORS AND OTHERS

The Recovery Act provides a payment of $250 to Social Security recipients, SSI recipients, Railroad Retirement beneficiaries, and disabled veterans receiving benefits from the Department of Veterans Affairs. (This one-time payment is designed to reach individuals who are not likely to benefit from the Making Work Pay tax credit.) It is estimated that these payments will inject more than $13 billion into the economy.

On March 26, Vice President Joe Biden and Michael Astrue, Commissioner of Social Security, announced that the $250 payments going to people who receive Social Security and Supplemental Security Income (SSI) benefits will begin to go out in early May and continue throughout the month. Individuals getting Social Security and SSI should not contact the agency unless a payment is not received by June 4. The payments for disabled veterans and for Railroad Retirement beneficiaries will also hopefully go out in the next couple of months.

For more information, go to:
http://www.socialsecurity.gov/payment

COBRA PREMIUM REDUCTION

As millions of people are losing their jobs in this recession, they are also losing their health insurance. The Recovery Act has a key provision to strengthen COBRA to help maintain health insurance coverage during this downturn. Under the COBRA program, workers who are laid off can buy into the health insurance plans of their former employer, but the coverage has typically been unaffordable.

The Recovery Act provides a 65 percent federal subsidy for COBRA premiums for up to 9 months for people who were involuntarily terminated from their jobs between September 1, 2008 and December 31, 2009. This 65 percent subsidy is designed to make health care continuation coverage under COBRA affordable. It is estimated that this provision will help 7 million people obtain health care coverage.

On March 19, Secretary of Labor Hilda Solis announced the implementation of the 65% subsidy for COBRA premiums, including releasing several documents, such as model notices, for employers and employees covered by COBRA.

Any worker now being involuntarily terminated from their job should be receiving information directly from their employer about the COBRA premium reduction they are entitled to, if their employer is covered by COBRA. If this does not occur, the individual should contact their employer. Also, if an individual has been terminated in recent weeks and was not told of the COBRA premium reduction, they should contact their former employer.

Furthermore, if an individual was involuntarily terminated from September 1, 2008 through February 16, 2009, but failed to initially elect COBRA, he/she will get a second chance to elect COBRA and receive the premium reduction. No later than April 18, 2009, health plans should notify individuals about the second election period, in addition to providing any forms and information needed to enroll. If an individual has not been notified by April 18, they should contact their former employer.

For more information, go to:
http://www.dol.gov/COBRA

For an excellent "frequently asked questions" about the COBRA premium reduction, prepared by the Ways and Means Committee, go to:
http://waysandmeans.house.gov/media/pdf/111/cobra.pdf